

Testimony
on
Historic Preservation and Community Development
U. S. House Government Reform Committee
Subcommittee on Federalism and the Census
The Honorable Michael R. Turner, Chairman

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September 20, 2006

I. Introduction

Mr. Chairman, my name is Edward Sanderson. I am the executive director of Rhode Island's State Historic Preservation Office and I served as President of the National Conference of State Historic Preservation Officers from 2001 to 2005, the national organization that represents historic preservation in every state.

In cities and towns across America, historic buildings have been rehabilitated and continue to be used for businesses, homes, and other uses. This investment not only saves historic places but also creates jobs, increases household income, and generates new state and local tax revenue. Since 1976 when the federal government began to offer a historic preservation tax incentive, over 32,000 buildings listed on the national Register of Historic Places have been rehabilitated involving a capital investment of over \$36 billion.

II. Rhode Island's Historic Preservation Investment Tax Credit

In 2001, the Rhode Island General Assembly enacted a state historic rehabilitation tax credit for the purpose of stimulating the redevelopment and reuse of historic commercial, industrial, and residential structures primarily found in city, town and village centers throughout the state. Owners of these properties can earn State income tax credits equal to 30% of qualified rehabilitation expenditures. To qualify, a building must be certified as having historical value and projects must meet historic preservation design standards and be approved by the RI Historical Preservation & Heritage Commission. The program rules are similar to the federal investment tax credit for historic rehabilitation projects, and many projects apply for both 30% Rhode Island credits and 20% federal credits.

The incentive has most certainly caught the interest of the development community, both locally and nationally. Since the creation of our state tax credit, the number of historic rehabilitation projects has increased 800 percent, and the amount of private investment has increased more than ten fold. By itself, the federal tax credit did not offer enough incentive for developers to take on large projects in deteriorated old buildings in inner-city neighborhoods. The Rhode Island Historic Preservation Investment Tax Credit changed the equation. Today our program is returning historic properties to municipal tax rolls, generating employment and housing where they are most needed and leveraging substantial private investment that otherwise would not

occur. In just the last four years, 235 projects, representing private investment of \$1.3 billion, have participated in the program.

Based on a professional economic impact study, I estimate that the state's multi-year investment in the tax credit is generating \$7.3 billion in economic activity. Put another way, each \$1 of state tax credit investment is leveraging \$5.47 in total economic output. Additionally, the program is estimated to add \$689 million in additional property tax revenue and sales and income tax revenue. The study noted that approximately 20% of the state's investment is recouped even before any cost is incurred because the credit is not actually provided until after the project is completed. By that time, the state has already collected construction-related income and sales taxes.

All this construction activity creates jobs for construction workers, and the renovated buildings provide space for businesses and residences. The current projects are creating over 24,000 construction-period jobs and over 8,000 permanent jobs.

Housing advocates say the tax credit is helping to ease the state's housing affordability crisis by increasing the overall supply of houses and apartments and by assisting in the creation of housing for low and moderate income residents. 4,581 residential units are being created, with over 600 (or approximately 13 percent) guaranteed affordable to families of earning less than 80 percent of the RI median of \$52,781.

Three-quarters of all the historic preservation projects are occurring in census tracts where family income levels are below the Rhode Island statewide median. According to the Housing Network of Rhode Island: "At a time when Rhode Island needs to increase overall housing production and particularly affordable housing production, the historic tax credit has proved to be a powerful tool. It provides another resource that non-profit developers can use in assembling the financing necessary to create affordable housing. And it has encouraged for-profit developers to create both market-rate and affordable units in urban neighborhoods they wouldn't have considered before, contributing to neighborhood revitalization and stability."

In its four short years of existence, the Rhode Island historic preservation program has stimulated more urban and town center revitalization than any tool or incentive established by state government in decades. Old textile mills and commercial buildings that have sat vacant or under utilized for many years are now getting a new lease on life through the stimulus of the tax credit. The importance of the historic tax credit has been recognized by important constituencies around the state. Calling it "one of Rhode Island's most effective tax incentives" the Rhode Island Economic Policy Council, in its *2004-2005 Economic Performance Scorecard*, says ... "there is no question the tax credit program has spurred mill renovation activity at levels that no one thought possible in the 1990s."

Scott Wolf, Executive Director of Grow Smart Rhode Island, says: "At a time when Rhode Island's open space and farmland are still under tremendous development pressure and our cities

and towns are struggling to expand their tax base, the Historic Preservation Investment Tax Credit is helping to address both of these challenges. Rehabilitation and reuse of historic buildings is smart economic development that plays to our strengths,” he said, noting Rhode Island’s abundance of authentic historic neighborhoods and buildings that exude charm, ‘quality of place’ and that attract visitors the world over. Wolf continued: “And this is happening quite efficiently with very little bureaucracy. It’s becoming clear that the public investment in the tax credit program is paying big returns financially and socially by revitalizing neighborhoods throughout the state and expanding tax bases and revenues. This is the single best economic development and neighborhood revitalization tool the state has seen in decades. This is about new jobs, new residents and new vitality,” he concluded.

III. Examples of historic rehabilitation projects

1. Downtown Providence

The State Historic Preservation Investment Tax Credit Program has proven to be a catalyst for the rehabilitation of the State of Rhode Island’s much neglected urban and town centers. Since the passage of the program, cities and towns throughout the State have benefited from the influx of out-of-state developers, businesses and residents. Properties that have remained dormant for years have now become vibrant places to live, work and play. The program has become one of the State’s most effective economic development tools.

One dramatic example of the program's success is the recent revitalization of a number of buildings purchased in the early 90’s with the vision of creating a vibrant residential neighborhood in DOWNCITY Providence. After the flight of businesses to the suburbs, these buildings remained vacant or severely underutilized due to the high cost of rehabilitating historic structures and the limited sources of funds made available by lenders. It was not until the adoption of the tax credit program that the rehabilitation of these buildings became financially feasible. Since the program’s inception, approximately \$54 million has been invested in a three-block area to rehabilitate deteriorated commercial buildings into approximately 200-residential apartments and first-floor retail space. The demand for residential apartments has come from a cross section of demographics including residents from New York, Connecticut and Boston looking for more space at a lower cost. The retail space has attracted new businesses to the State of Rhode Island such as Design Within Reach, Symposium Books, tazza caffè, Lumiere Salon and G-Media Productions.

A major effect of the program that cannot be overlooked is the need and demand that it has created for new development in proximity to these rehabilitated historic structures. For example, the credit-induced DOWNCITY redevelopments have established the need to invest \$35 million in a 500-car parking structure featuring two residential towers with first floor retail to support the residential and retail. In addition, recent plans for a 32 story condominium project are a clear response to the enhanced critical mass of DOWNCITY revitalization stimulated by the tax credit. The tax credit program is also generating intangible positive effects such as new residents and

business people now taking pride and ownership in their cities and towns. Over the past year, Downcity has seen the creation of a neighborhood crime watch and the much anticipated Downcity Improvement District, whereby property owners voluntarily tax themselves to provide additional cleanliness and safety services in their district beyond the City's services.

Based on feedback from experienced developers, it is certain that the Downcity projects listed below and their ripple effects could not have been accomplished without the use of State Historic Preservation Investment Tax Credits.

Alice Building

The Alice Building is located in the heart of Downcity at 236 Westminster Street. Prior to the establishment of the tax credit program, the building was virtually vacant and had fallen into disrepair. As a result of the tax credit, the building has been restored and rehabilitated into 5,000 square feet of first floor retail space and 38 residential units on the upper floors. The residential units, ranging from 820 to 2,500 square feet, are occupied by a wide variety of new residents of Downcity including graduate students, professionals, artists and empty nesters.

Burgess and O'Gorman Buildings

Constructed in 1870, the Burgess Building located at 220 -232 Westminster Street was designed by architect George Waterman Cady in the post-Civil War expansion of Providence's central business district. It is now the oldest surviving building on Westminster Street. Both the Burgess and O'Gorman Buildings were combined as one exciting new building with 13 loft-style apartments and first floor retail space.

Wilkinson Building

The Wilkinson Building located at 210 Westminster Street is an example of early 20th century American commercial construction. Built in 1900, the Wilkinson Building formerly housed the Lerner Department Store. The building has undergone a complete rehabilitation to include twelve (12) loft style apartments and San-Francisco based retailer Design Within Reach, which occupies 3,200 square feet on the ground floor.

Peerless Building

The most significant Downcity rehab project and the most difficult to finance, the Peerless building ca. 1873, is a six-story brick and stone building that occupies a city block in the center of Downcity. This project required the use of six different sources of funds. The building is being renovated to become 97 unique loft style apartments. This project required the coring out of approximately 40,000 square feet of the center of the building to create a central six-story glassed atrium. On any day you will see approximately 150 construction workers diligently working towards the completion of the project for the spring of 2005. In addition, the project

shall include a 68-car parking garage in the basement, a private roof garden for the residents and 22,000 square feet of newly created retail space.

2. Melrose Project

On Providence's West Side, the Elmwood neighborhood contains a wealth of historic late 19th-century architecture that once housed the city's successful middle-class. Unfortunately the neighborhood declined during much of the 20th century and the houses deteriorated. Fifteen buildings near the intersection of Melrose Street and Adelaide Avenue have been rehabilitated for low and moderate income residents through the cooperative work of Greater Elmwood Neighborhood Services and the Providence Preservation Society Revolving Fund. This multiple building intervention has advanced preservation through a several block area. By saving key buildings, the whole neighborhood is improved and nearby property owners may be encouraged to improve their own property.

In the 1980s, a previous owner unsympathetically converted ten of the buildings to multiple apartments, and then abandoned them to foreclosure by the US Department of Housing and Urban Development. With help from the City of Providence, RI Housing, HUD and federal and state tax credits, the project invested \$4.5 million to save the buildings and rehabilitate 42 rental apartments and five houses for homeownership.

This project makes a significant contribution to the neighborhood's ongoing revitalization and creates affordable homes in a historic neighborhood with a strengthened sense of place.

3. Historic Mills

RI's heritage of mills and factories reflects our state's world leadership as a manufacturing innovator and production powerhouse in the 19th and early 20th centuries. Then these "red brick elephants" became obsolete and at-risk. Preservationists knew these significant structures offered great space, and the combination of federal and state tax credits are proving them right. Creative developers willing to take risk, talented architects who adapt industrial floors to new uses, and skilled building trades workers are preserving this architectural legacy and helping to rebuild by-passed neighborhoods.

The following six mills have a combined investment of \$207 million and they created 841 apartments. In every case, nearly empty factories with broken windows and crumbling brick have been brought back into active use as apartments, offices, and shops. Long unused floors often with large banks of windows, have been converted to loft apartments in a wide range of layouts, sizes, and visual character to suit tenants preferences.

The Ashton Mill, in Cumberland, was constructed in 1867 for the manufacture of cotton textiles. Now known as The River Lofts at Ashton Mill, this \$42 million project created 214 one- and two-bedroom units as well as gathering places.

Pawtucket's Campbell Machine Shop, built in 1888-89, previously housed manufacturers of machines, textiles, yarn, and braided rugs. Rehabilitated as the Bayley Street Lofts, the five-story mill now houses 25 market-rate and low-income apartments. It represents a \$5.6 million investment.

The former Lebanon Mill (1901) on the Blackstone River was transformed into the Riverfront Lofts with 59 live-work spaces. The \$24 million investment represents a benchmark in the revitalization of Downtown Pawtucket.

The New England Butt Company (1865) on Providence's West Side is now the Pearl Street Lofts. The \$13 million renovated factory accommodates 38 loft-style apartments and condominiums, commercial space, and offices.

Two historic buildings in Providence's sprawling Brown & Sharpe Complex (after 1872) have found new life as The Promenade Apartments. The \$57 million project created 220 new residential units. Commercial office tenants occupy additional historic buildings in the complex.

The rehabilitated National & Providence Worsted Mill (1881) includes 285 apartments, office space, and a restaurant. This \$65 million mixed-use project is a catalyst for future preservation efforts along the Woonasquatucket River.

IV. Recommendations

Rhode Island's experience, and the experience of other states, has shown that the current Federal tax incentive for historic rehabilitation is not an adequate economic incentive to leverage private investment in many cases. The following recommendations are intended to suggest ways that the Congress can improve the ability of historic preservation projects to promote economic development and community revitalization.

1. Improve the Federal Historic Rehabilitation Tax Credit

Although the rehab credit has been widely used as an effective tool for transforming vacant and abandoned buildings into safe, decent, and – in many cases – affordable places to live, it must be improved so that it can truly realize its full potential. The rehab credit should be easier to use, especially in projects that twin the incentive with the Low-Income Housing Tax Credit (LIHTC) and for smaller, more “main street”-oriented projects. H.R.3159 would make the following changes:

- Basis Reduction -- Lessen the rule that lowers tax benefits dollar-for-dollar according to the amount of credit taken when using the historic rehab credit.
- Smaller Projects -- Increase the rehab credit rate to 40 percent for smaller projects in which the qualified rehabilitation expenditures do not exceed \$2 million. This would target the incentive to “main street” type developments in which rehab credit costs are currently too prohibitive.
- More Housing -- Permit the 10 percent credit to be claimed with respect to residential rental property. It is currently prohibited for projects that include dwellings.
- Re-Using “Older Buildings” -- Change the definition of “older building” from “built before 1936” to any property “fifty years old or older.”
- Non-Profit Uses -- Ease the rules governing non-profit deals so that more community-oriented projects may move forward by amending Section 47 to limit the types of leasing arrangements with non-profits and other tax-exempt entities that preclude the use of rehab credits.
- Targeting in Disinvested Areas -- Boost by 130 percent the qualified rehabilitation expenditures on which the rehab credit can be claimed for buildings located in certain disinvested neighborhoods, difficult to develop areas, and census tracts with high poverty rates.
- Application to Condominiums -- Remove the recapture clause -- requiring the payback of tax credits upon conversion of a tax credit property into a condo development-- to broaden the tax credit's use to condominium developments and in so doing, provide new support for the revitalization of urban neighborhoods nationwide.

2. Improve program delivery

The National Parks Advisory Board has recently adopted a series of recommendations for improved administration of the Federal Tax Credit program by the National Park Service and for greater flexibility to allow more worthwhile projects to qualify for historic rehabilitation tax credits. The National Park Service should implement these recommendations, with the support of state Historic Preservation Offices.

3. Support the preservation infrastructure

Successful historic preservation investments require that the infrastructure of the national historic preservation program is in place and functioning effectively and adequately supported by federal

appropriations to the Historic Preservation Fund within the Department of the Interior. Potential investment projects are identified by historic site surveys carried out within the states, and investment properties must be nominated to the National Register of Historic Places by State Historic Preservation Officers and listed by the National Park Service. Investment project applications are reviewed by State Historic Preservation Office staff and by National Park Service staff, who also assist property owners by providing technical information and professional guidance. These functions are supported by federal Historic Preservation Fund appropriations.

V. Conclusion

Mr. Chairman, America's heritage can be found in historic buildings in local places all over the United States. Our national heritage is not only found in a few well-known landmarks located "somewhere else" far away from where most Americans live. On the contrary, every landmark is part of a local community and most of the nation's older cities and towns contain historic neighborhoods and downtowns that need revitalization. In my state and in many others, vacant and under-utilized historic buildings are a standing inventory of potential capacity for needed housing, jobs, and public use. Programs like the Rhode Island Historic Preservation Investment Tax Credit and the Federal Historic Rehabilitation Tax Credit offer significant opportunity to renovate historic buildings and put them back to use. Thank you for your leadership in studying how to support and expand this important work.